

**ORGANIZATIONAL  
REPORT ON EXAMINATION  
OF  
FIVE POINTE PROFESSIONAL LIABILITY  
INSURANCE COMPANY  
AS OF  
OCTOBER 1, 2007**

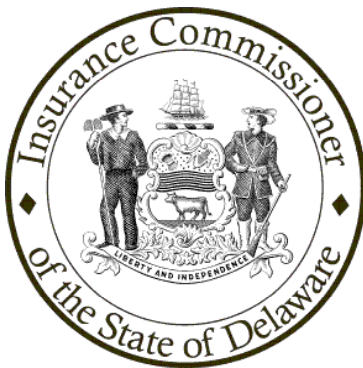
I, **Matthew Denn**, Insurance Commissioner of the State of Delaware, do hereby certify that the attached **Report On Examination**, made as of **October 1, 2007**, of the

**FIVE POINTE PROFESSIONAL LIABILITY INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: 

Date: 16 November 2007



*In Witness Whereof*, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 28TH DAY OF NOVEMBER, 2007.



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Matthew Denn  
Insurance Commissioner

**REPORT ON EXAMINATION**  
**OF THE**  
**FIVE POINTE PROFESSIONAL LIABILITY INSURANCE COMPANY**  
**AS OF**  
**OCTOBER 1, 2007**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", is written over a horizontal line.

MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 28<sup>TH</sup> day of November, 2007.

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October 2, 2007

Honorable Mathew Denn  
Insurance Commissioner  
State of Delaware  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19901

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No.07.103  
an organizational examination has been made of the affairs, financial condition and  
management of

**Five Pointe Professional Liability Insurance Company**

hereinafter referred to as "Five Pointe" or "Company", incorporated under the laws of the  
State of Delaware.

The report of such examination is respectfully submitted herewith.

## **SCOPE OF EXAMINATION**

This is an examination to review the operations of Five Pointe as per the Company being granted a certificate of authority under Chapter 69, Captive Insurance Companies, of the Delaware Insurance Code.

## **HISTORY**

Five Pointe was incorporated in the State of Delaware on January 26, 2006 under the corporate title, SEPA Medical Professional Liability Insurance Company. The present title was adopted May 9, 2007. The Company is a nonprofit corporation, organized for purposes described in Section 501 (c) (3) of the Internal Revenue Code of 1986. Furthermore, Five Pointe is organized and shall be operated as a sponsored captive insurance company pursuant to subchapter II, Chapter 69 of the Delaware Insurance Code.

The Company is a membership corporation and shall be operated for the benefit of Jefferson Health System Inc. and the following nonprofit members named in the certification of incorporation:

TJUH System (Thomas Jefferson University Hospital)  
Main Line Health, Inc.  
Albert Einstein Healthcare Network  
Frankford Health Care System  
Magee Memorial Hospital for Convalescents

## **TERRITORY AND PLAN OF OPERATIONS**

In December, 2002, Jefferson Health System (JHS) in response to the medical malpractice crisis in Pennsylvania, formed Mountain Laurel Risk Retention Group (MLRRG), domiciled in Vermont. The MLRRG's primary professional liability coverage is intended to qualify as primary professional liability insurance coverage for purposes of the Pennsylvania Medical Care Availability and Reduction of Error Act ("MCare Fund").

MLRRG issues medical malpractice and general liability policies to JHS, the JHS Member Organizations and Affiliates. A policy is issued to JHS, each JHS Member Organization and/or Affiliate and the MLRRG then issues certificates of insurance to the Member hospital and scheduled physicians.

MLRRG is 100% reinsured for the primary professional liability risks insured. JHS is comprised of the five Member Organizations noted above: Einstein, Frankford, Magee, Main Line Health, and Thomas Jefferson University Hospital. The MLRRG has entered into a separate reinsurance agreement with respect to JHS and each of the JHS Member Organizations, which specifies that losses payable on each Member's policies are only payable by that Member's assets held at the reinsurance company. This means, for example, when Einstein is issued a policy by the MLRRG, Einstein pays a premium based on Einstein's own experience. Assets held at the reinsurance company generated by Einstein's premiums and investment income pay Einstein's claims. If additional funds are needed to pay Einstein's claims, Einstein has to provide the additional funding. Einstein cannot look to any of the Member Organizations for support.

When MLRRG was formed in December, 2002, a for-profit captive, Whitehall Station Insurance SPC Limited (Whitehall) was formed in the Cayman Islands.

Whitehall's role was twofold: to reinsure 100% the primary professional liability coverage written by MLRRG, and to write an umbrella policy that attaches above a stipulated retained layer of coverage. This umbrella coverage is 100% reinsured by commercial reinsurance companies.

In 2006, JHS sought to replace Whitehall with a domestic captive. Therefore, SEPA Medical Professional Liability Insurance Company was formed in Delaware on January 26, 2006. As per Company management, Delaware was selected for the domicile of the captive because of the "protected cell" provision in the Captive Code, which replicates the segregated portfolio arrangement used by Whitehall. Concurrently, JHS applied for 501 (c)(3) status for the Company.

On May 9, 2007, SEPA's Certificate of Incorporation was amended, changing the name of the company to Five Pointe Professional Liability Insurance Company.

On July 1, 2007, Five Pointe "stepped into the shoes" of Whitehall by assuming all liabilities of the Cayman Island company and receiving all the assets. Prior to this date, the Company received a Certificate of Authority from the Delaware Insurance Department. The following chart shows the invested assets and loss reserves transferred in the first week of July, 2007:



<u>Protected Cell</u>	<u>Assets Transferred</u>	<u>Projected Losses</u>	<u>Margin Assets over Losses</u>
Albert Einstein Healthcare	\$38,331,828	\$39,442,000	\$(1,110,172)
Frankford Healthcare	29,847,205	28,355,000	1,492,205
Magee Rehabilitation Hosp	3,750,850	8,802,000	(5,051,150)
Main Line Health Inc	72,078,901	51,555,000	20,523,901
Thomas Jefferson Univ.	55,068,625	42,680,000	12,388,625
Jefferson Health System	<u>2,083,279</u>	<u>1,315,000</u>	<u>768,279</u>
Total	<u>\$201,160,688</u>	<u>\$172,149,000</u>	<u>\$29,011,688</u>

As indicated, some of the cell-members of the Company are in a surplus position while for others the projected losses exceed the asset fund for that member.

Five Pointe has in place an internal procedure in which every member in a deficit position is required to correct the deficiency.

On September 13, 2007, a Letter of Credit in the amount of \$10,000,000 was issued by Wachovia Bank, naming Five Pointe as beneficiary. The applicant of the Letter of Credit was Jefferson Health System. The Letter of Credit will expire June 30, 2008.

**CONCLUSION**

No exceptions were noted by the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James J. Blair Jr.", written in a cursive style.

James J. Blair Jr.  
Examination Supervisor  
Insurance Department  
State of Delaware